

DIVISION OF ECONOMIC POLICY, RESEARCH AND  
LEGISLATIVE AFFAIRS

ENTERPRISE ZONES

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# MARYLAND ENTERPRISE ZONE PROGRAM

Maryland's Enterprise Zone program is a joint effort between the State and local governments to provide tax incentives to businesses and property-owners located in some of the State's most economically distressed communities. The program was created in 1982 with two zones in two jurisdictions and has grown to include 28 zones in 14 jurisdictions. In accordance with Chapter 305, Acts of 2001, the Department of Business and Economic Development (DBED) has reviewed the effectiveness of the State's Enterprise Zone tax credit program and prepared this report. DBED wishes to acknowledge the efforts of the Comptroller of the Treasury, the State Department of Assessment and Taxation, and county and municipal enterprise zone administrators for providing valuable information for this report.

As of December 2006, there are 28 enterprise zones across the state and three focus areas. The enterprise zones are located throughout the state, with ten state-designated zones in Western Maryland, nine on the Eastern Shore, four in Southern and Suburban Maryland, and five in Central Maryland (Table 1).

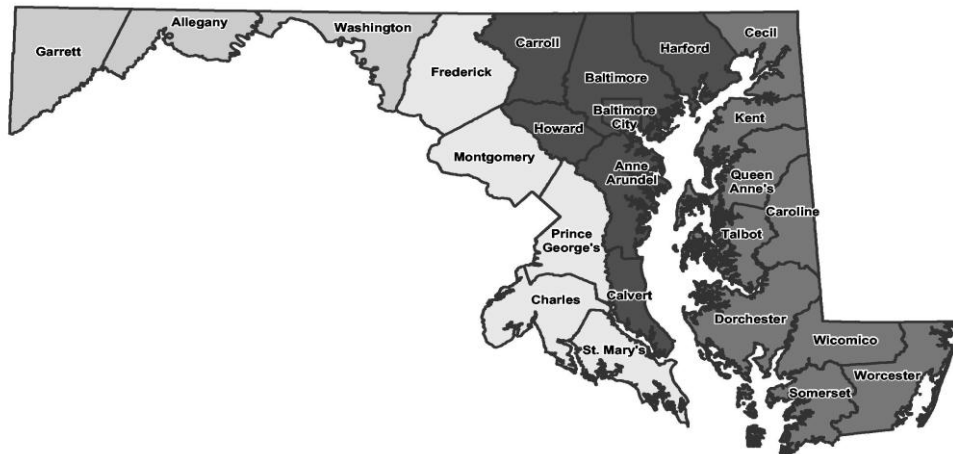


Table 1: Enterprise Zones		
County	Enterprise Zone	Expires
Allegany	Rt. 220 South-Allegany County	12/14/2009
	Cumberland-Allegany County	6/14/2012
	Frostburg-Allegany County	12/14/2014
Baltimore City	Baltimore City	6/14/2012
Baltimore County	North Point-Baltimore County	12/14/2015
	Southwest Baltimore County	12/14/2013
Cecil	Cecil County	12/14/2013
Dorchester	Hurlock Industrial Park	12/14/2009
	Cambridge-Dorchester County	6/14/2013
Garrett	Southern Garrett Industrial Park	12/14/2016
	Northern Garrett Industrial Park	6/14/2009
	Central Garrett Industrial Park	6/14/2013
	Keyser's Ridge Business Park	6/14/2014
Harford	Aberdeen/Havre de Grace	6/14/2016
	Edgewood/Harford County	12/14/2014
Montgomery	Wheaton	12/14/2008
	Takoma Park	6/14/2013
Prince George's	Prince Georges County	12/14/2009
Somerset	Crisfield-Somerset County	6/14/2016
	Princess Anne-Somerset County	12/14/2013
St. Mary's	Lexington Park	12/14/2010
Washington	Town of Hancock	12/14/2015
	Hagerstown-Washington County	12/14/2012
	Washington County Airport	6/14/2014
Wicomico	Salisbury-Wicomico County	12/14/2012
	Fruitland-Wicomico County	6/14/2015
Worcester	Berlin-Worcester County	12/14/2016
	Pocomoke City Enterprise Zone	12/14/2011
Expired Zones		
Allegany	Rocky Gap State Park/Allegany County	12/14/2003
Calvert	Calvert Industrial Park	6/14/2003
Montgomery	Silver Spring	12/14/2006
Washington	Washington County Interstate 81 Park	12/14/2001
Worcester	Snow Hill/Worcester County	6/14/2005
St. Mary's	Lexington Park (Focus Area designation only)	12/15/2005
Focus Areas		
Baltimore City	Baltimore City	6/14/2010
Prince George's	Prince George's County	12/14/2009
Montgomery	Takoma Park	6/14/2008

## **Real Property and Income Tax Credit Usage**

The primary benefits to businesses that are located within a Maryland enterprise zone are eligibility for local property tax credits and state income tax credits. The General Assembly requires the Department of Business and Economic Development (DBED) and the Comptroller of Maryland to report annually beginning December 15, 2002 on the effectiveness of the enterprise zone tax credits. Specifically, the Enterprise Zone statute requires DBED and the Comptroller to assess the effectiveness of tax credits provided to businesses in enterprise zones, including the number and amount of credits granted annually and the success of the tax credits in attracting and retaining businesses within enterprise zones.

This report addresses the number and amount of credits granted annually for each credit followed by a discussion of the information provided by county and/ or municipal administrators on how the credits are used to attract and retain businesses.

### ***Property Tax Credits***

Eligible businesses in an enterprise zone may claim a ten-year credit against local real property taxes on a portion of real property improvements. The credit is 80 percent of the assessment increase during the first five years. The credit then decreases 10 percent annually thereafter to 30 percent in the tenth year.

The State Department of Assessments and Taxation (SDAT) reports on the real property investment made in the enterprise zone, the number of businesses receiving property tax credits and the State's one-half reimbursement back to the counties and municipalities for the property taxes abated as a result of the credits. SDAT reports that 730 businesses will receive property tax credits totaling \$18.1 million in FY 2008. The credits are based on real property investments made by those businesses totaling \$1,777.8 million. This translates to an average capital investment of \$2.4 million per business. The real property investment will cost the State \$9.1 million to reimburse the localities, assuming the State's full obligation is met.

Over the last three years there has been a sharp increase in the amount of real property tax credits granted to businesses with the biggest change happening between FY 2006 and FY 2007. During this time period the amount of real property tax credits increased 43 percent and from FY 2007 to FY 2008, it increased another 7 percent. From FY 2006 to FY 2008, an additional \$621 million was invested in enterprise zones. A consequence of this activity is that the State's reimbursement to the counties has also increased during this time. The State's reimbursement climbed from \$5.8 million in FY 2006 to \$8.3 million in FY 2007 to \$9.1 million in FY 2008. The following chart compares the capital investment and tax credits granted over this time period by county.

**Table 2: Change in Capital Investment and Real Property Tax Credits, FY 2008-2006**

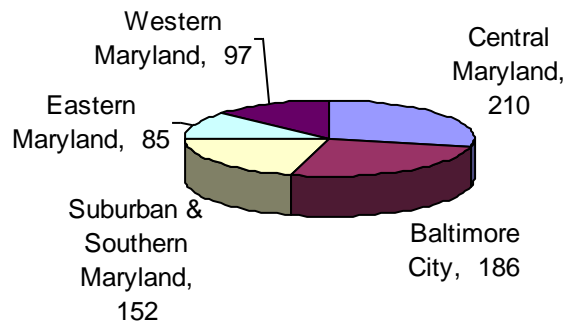
<b>County</b>	<b>Capital Investment FY 2006</b>	<b>Capital Investment FY 2007</b>	<b>Capital Investment FY 2008</b>	<b>Percent Change FY 2008- 2007</b>	<b>Percent Change FY 2007- 2006</b>	<b>Percent Change FY 2006- 2008</b>
Allegany	37,681,778	40,594,813	36,531,913	-10.0%	7.7%	-3.1%
Baltimore City	175,127,039	302,758,851	315,676,051	4.3%	72.9%	80.3%
Baltimore County	100,172,234	127,917,108	160,657,721	25.6%	27.7%	60.4%
Calvert	10,998,315	12,568,055	14,865,772	18.3%	14.3%	35.2%
Cecil	46,232,895	145,092,988	159,884,356	10.2%	213.8%	245.8%
Dorchester	117,218,981	36,099,199	23,912,667	-33.8%	-69.2%	-79.6%
Garrett	6,262,831	6,550,074	8,659,065	32.2%	4.6%	38.3%
Harford	305,365,245	336,214,782	404,536,606	20.3%	10.1%	32.5%
Montgomery	110,837,983	379,327,375	357,178,177	-5.8%	242.2%	222.3%
Prince George's	57,700,849	73,499,419	100,078,771	36.2%	27.4%	73.4%
St. Mary's	6,080,990	6,223,868	6,361,968	2.2%	2.3%	4.6%
Somerset	575,856	494,132	735,940	48.9%	-14.2%	27.8%
Washington	164,596,595	169,037,629	174,352,141	3.1%	2.7%	5.9%
Wicomico	9,451,570	9,988,984	8,481,917	-15.1%	5.7%	-10.3%
Worcester	8,355,190	9,801,116	5,866,190	-40.1%	17.3%	-29.8%
<b>Maryland</b>	<b>1,156,658,351</b>	<b>1,656,168,393</b>	<b>1,777,779,255</b>	<b>7.3%</b>	<b>43.2%</b>	<b>53.7%</b>

Source: SDAT and DBED

As Table 2 shows the amount of capital investment increased almost 54 percent over this time period, with the biggest increases occurring between FY 2006 and FY 2007. The largest dollar increases in capital investment were in Montgomery County, Baltimore City and Cecil County, which accounted for 81 percent of the \$621 million increase.

There is considerable variation by region in the usage of the program. This variance is attributable to three factors: 1) eligibility for the program—poorer areas can more readily meet the eligibility criterion for participation in the program; 2) political choice to participate in the program—the governing bodies of counties and their municipalities have sole authority to request creation of an enterprise zone and sole discretion to establish local standards that govern access by businesses to the program's credits; and 3) private sector business expansion—the enterprise zone has no costs unless businesses make new investments in real property. In FY 2008, 730 businesses across the State received tax credits for investments in enterprise zones. Figure 1 shows the location of these businesses by region.

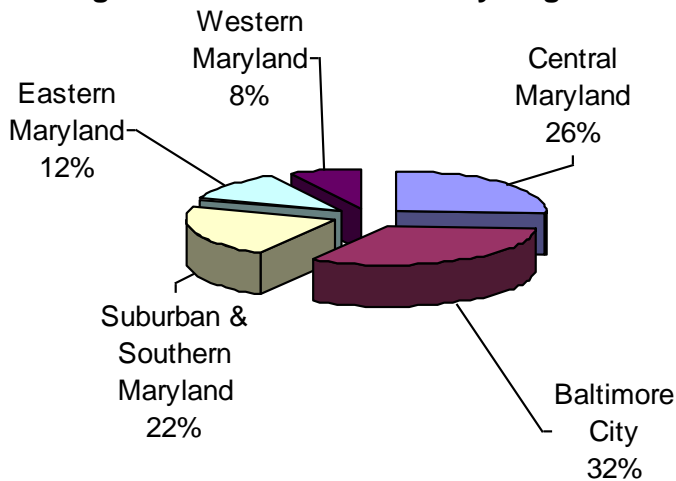
**Figure 1: Businesses Receiving Enterprise Zone Property Tax Credits**



Source: SDAT and DBED

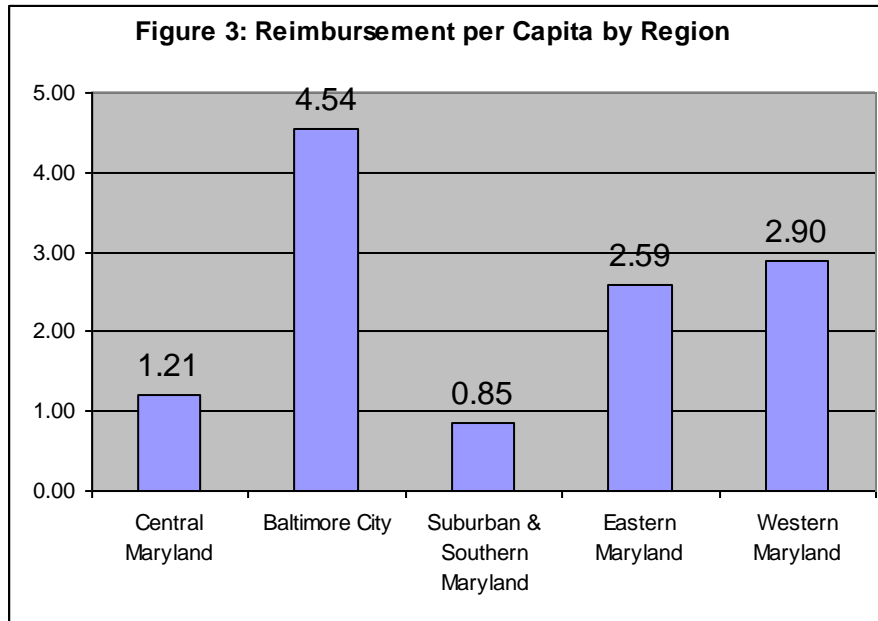
Figure 2 shows the distribution of property tax credit reimbursements by region for the upcoming fiscal year (FY 2008). The largest share of reimbursement will go to Baltimore City, which will receive \$2.9 million or 32 percent. This is followed by Central Maryland (\$2.4 million), Suburban and Southern Maryland (\$2.0 million), the Eastern Shore (\$1.1 million) and Western Maryland (\$0.7 million).

**Figure 2: Reimbursement by Region**



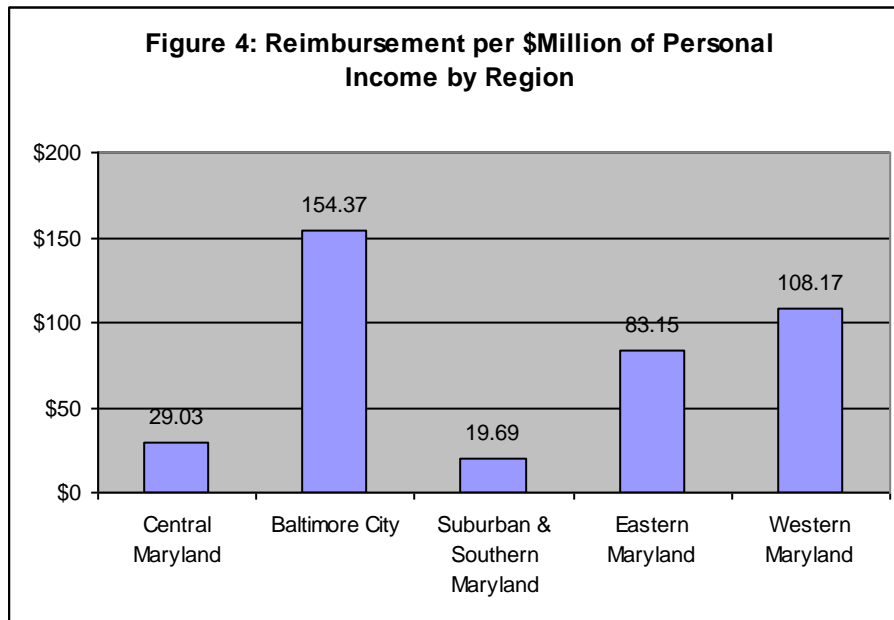
Source: SDAT and DBED

To better understand the financial importance of the Enterprise Zone program to the participating jurisdictions, our analysis accounts for the disparities in population and wealth between the regions. Statewide, the projected cost of the enterprise zone property tax credit is expected to be \$1.62 per Maryland resident. In FY 2008 reimbursement on a per capita basis will be: \$4.54 to Baltimore City, \$2.90 to Western Maryland, \$2.59 to the Eastern Shore, \$1.21 to Central Maryland and \$0.85 to Suburban and Southern Maryland.



Source: SDAT and DBED

Looking at the personal income of each region also illustrates that areas of the State with the highest unemployment are also the areas that benefit most from the Enterprise Zone program (Figure 4). When the data is computed on the basis of reimbursement payments per million of annual personal income, Baltimore City receives \$154 per million dollars of personal income, followed by Western Maryland with \$108, the Eastern Shore with \$83, Central Maryland with \$29 and Suburban and Southern Maryland with \$20.

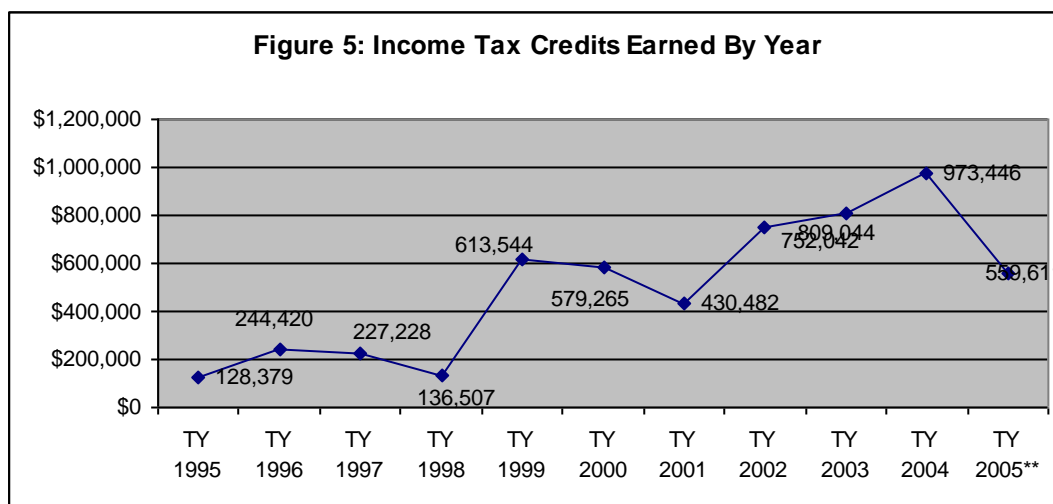


Source: SDAT and DBED

### ***Income Tax Credits***

Eligible businesses in an enterprise zone may claim one-year or three-year credits for wages paid to new employees in new positions. The general credit is a one-time \$1,000 credit per new worker. For economically disadvantaged employees, the credit increases to a total of \$6,000 per worker distributed over three years. Businesses claim the enterprise zone income tax credits on the 500CR form when they submit their business or individual income tax returns to the Comptroller of Maryland. The Comptroller collects and compiles this tax return data.

The Comptroller has provided consistent tax return data on the enterprise zone income tax credits from tax years 1995 to 2005. The 2005 data is incomplete because of corporate filing extensions. As Figure 5 shows, the usage of the credits varies from year-to-year but has generally been trending upward over the last five years. Businesses in enterprise zones have earned a total of \$5.5 million in income credits over this time period.



\*\* Data is incomplete for the TY 2005  
Source: Comptroller and DBED

Enterprise zone administrators generally agree that the enterprise zone real property tax credit is the most useful and effective enterprise zone credit available to businesses that locate or expand in an enterprise zone. Counties that have few other incentives to offer find that the property tax credits are very important. Several counties also noted that the credits are useful in retaining companies in the zone. Companies considering an expansion often decide to expand within the zone rather than move to another location outside of the zone.

The Employment tax credits are perceived as secondary in importance in attracting businesses. Most of the businesses are small employers who do not always take advantage of the incentive due to wages paid and the perceived paperwork involved with obtaining the credits. Administrators report a large degree of interest in the credits



and find them useful in marketing their areas to prospective businesses, although the importance of the credits in a firm's decision to locate varies from zone-to-zone.

### **Impact of Property and Income Tax Credits**

*One such area that is experiencing growth due in part to the benefits of the Enterprise Zone is Fairfield. Recent redevelopment activities in this area have been brisk. Vane Brothers built a new campus to accommodate its headquarters office building and other facilities for its maritime operations. The Maryland Port Administration has been able to attract more business to its waterfront sites, Madison Warehouse constructed a 194,000 square foot warehouse on a former public housing site, vacant sites are being redeveloped to attract and expand businesses in the area, and the former BP Amoco site (consisting of one million square feet) was redeveloped in the Fishing Point Terminal. These redevelopment investments clearly show that the Enterprise Zone tax incentives have greatly provided the City of Baltimore with much needed business opportunities, retaining existing businesses, which in turn provide additional job opportunities for residents.*

#### **Baltimore City Enterprise Zone**

*Bowman Development was able to attract Builders FirstSource to the City of Hagerstown/Washington Enterprise Zone because of the tax credits. Bowman leases the property to Builders FirstSource but the tax credits filter through the lease. The company added 200 jobs to Washington County.*

#### **Hagerstown-Washington County Enterprise Zone**

*Several significant development projects were completed in 2005 in downtown Wheaton. The most dramatic success story is the opening of Montgomery County's first Macy's Department Store, the expansion of 40 new stores and complete renovation of Westfield Wheaton mall to a fully modern 2 level regional mall. In total this project represents a private investment of more than \$141.4 million. Enterprise Zone property tax credits and employment tax credits were a substantial part of the overall incentive package to attract Macy's to Wheaton and a significant financial inducement for Westfield's to expand and renovate the mall.*

#### **Wheaton Enterprise Zone**

*Property tax credits continue to be useful in attracting businesses to the enterprise zone. This past year (2005), seven new projects were certified, of which two were investments of more than \$15 Million (multi-story office building in Water's Edge, Belcamp) and \$12 Million (spec distribution center in Perryman), respectively. In addition, five projects were rehabs of existing buildings (4 in the City of Aberdeen and 1 in the City of Havre de Grace) for a combined investment of more than \$2 Million.*

#### **Aberdeen-Havre de Grace- Harford County Enterprise Zone**

*American Woodmark constructed a manufacturing facility in the 220 Industrial Park. The Enterprise Zone benefits were marketed to the Company from the early discussions of the project. While our workforce played a role in the location decision, programs such as the Enterprise Zone and One Maryland played a major part in the decision.*

#### **Route 220-Allegany County Enterprise Zone**

*The Enterprise Zone provided an incentive to Machining Technologies, Inc. (MaTech) to purchase a vacant building to expand its manufacturing business. The company is renovating a thirty-five year old, 150,000 s.f. facility into a state of the art precision machine shop, adding a 10,000 s.f. office component and increasing its job base from 230 associates to more than 300 associates. The tax credits associated with the Enterprise Zone help offset relocation and renovation expenses.*

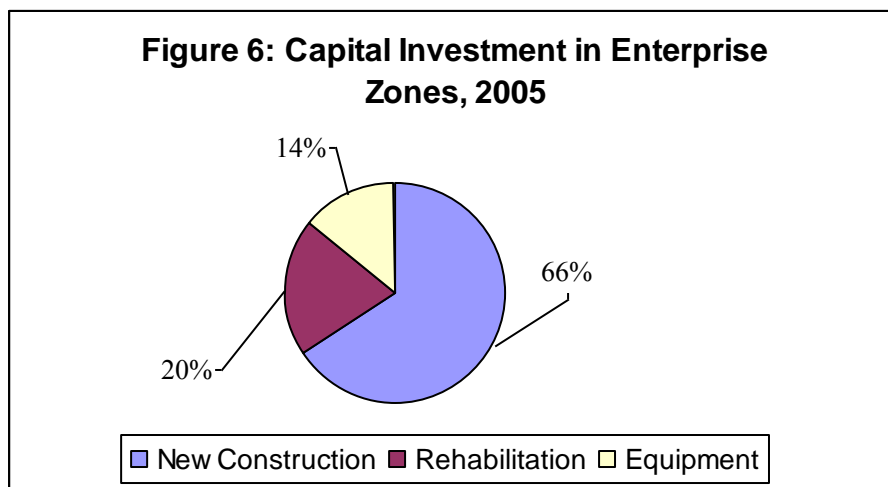
#### **Salisbury-Wicomico County Enterprise Zone**

*This business [Hobby House Press, Inc.] has expanded three times since locating in the Northern Garrett Industrial Park in 1994. At the present time the business has outgrown its current warehouse/distribution facility. One of the major incentives for remaining in the Park and continuing to expand its operations has been the enterprise zone tax credits available to the business.*

#### **Northern Garrett County Enterprise Zone**

## Business Activity in the Enterprise Zones

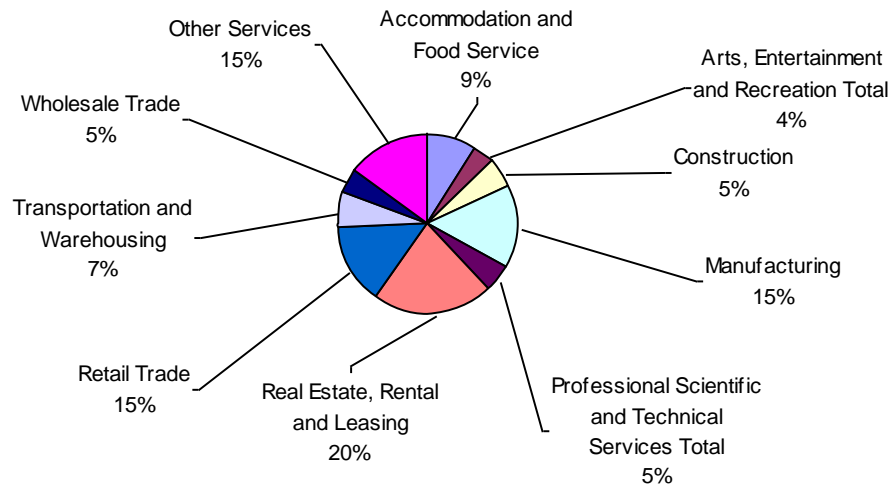
In addition to the information from SDAT and the Comptroller on the number and amount of credits granted annually, the local enterprise zone administrator annual reports provide information on the activity of the businesses in their enterprise zones and on their experience in using the credits. Local zone administrators reported that they certified 204 new businesses for the property and/ or income tax credits in 2005. Based on the administrator reports, businesses created a little over 4,000 new jobs. Businesses also reported on the amount of capital investment in new construction, rehabilitation and equipment. According to the reports, in 2005 businesses invested approximately \$760 million. Of the \$760 million of investment, 66 percent was in new construction (\$498.9 million), 20 percent on rehabilitation (\$154.0 million) and 14 percent on equipment (\$107.4 million).



It is difficult to compare information on the amount of investment on a year-to-year basis because the information is, in any year, only reflective of the businesses that provided information to the enterprise zone administrators and does not reflect the activity of all businesses in the all of the zones. However, it is worth noting that the amount of investment that was reported to the enterprise zone administrators increased \$139.3 million from the previous year.

As a local program, enterprise zones are established to meet different economic development goals and objectives. Some are designated to attract businesses to industrial parks while others are designed to revitalize downtown areas. The types of businesses that benefit from the enterprise zone program vary across jurisdictions based on the local industry focus. Based on information provided by the local zone administrators, real estate businesses are the predominant beneficiary of the enterprise zone program. Of the 558 businesses reporting, real estate related businesses makes up 20 percent, 15 percent are manufacturing, 15 percent are in the retail trade and 9 percent are in the accommodation and food service sector.

**Figure 7: Businesses By Industry Type**



\*Representative sample of enterprise zone businesses

### ***Enterprise Zone Impacts***

An important goal of the enterprise zone program is to improve the communities in and around the zone. Enterprise zone administrators reported their observations on the impact of the enterprise zone on their community. In some cases the zones have only been designated for a few years and have not had enough time to impact their community, while the communities in and around other zones have experienced significant improvement. Some zones have seen very little improvement to the communities surrounding their zone.

## **Enterprise Zone Impacts**

*The impact of the zone on the surrounding community has generally been positive, however, on the eastside of Baltimore County, there is growing pressure from gentrifying residential neighborhoods to limit the amount of industrial development in the area. This has surfaced in one neighborhood, Wells McComas, adjacent to the zone, where, for years, small industrial users and trucking firms have co-existed with the owners of small older waterfront homes. When the County applied for redesignation of the North Point Zone in the fall of 2005, residents of this neighborhood lobbied insistently for property to be removed from the zone and new boundary lines drawn. The County's application reflected their request and several acres were not included in the new application. That community viewed Enterprise Zone designation as counter to their desire to eliminate industrial uses in their community.*

### ***North Point Baltimore County Enterprise Zone***

*Property values continue to increase in Cambridge. Our downtown, which is now included in our Enterprise Zone, is participating in the Main Street Maryland and has been designated an Arts and Entertainment District. The combination of the three programs is helping to revitalize our City.*

### ***Cambridge-Dorchester County Enterprise Zone***

*The zone impacted the redevelopment of the Downtown Cumberland area. CBIZ an investment / insurance company purchased and renovated several old buildings in the downtown area. This brought jobs back into the downtown which helped fuel the redevelopment of restaurants and other retail establishments.*

### ***Cumberland-Allegany County Gateway Enterprise Zone***

*The Enterprise Zone designation has helped Harford County to continue to attract numerous quality businesses with good paying positions. A large number of the new major employers have located within the Enterprise Zones or nearby areas. In addition, these new businesses have created jobs for local residents and a large percentage of the employers indicate that about 60% to 70% of their workforce are Harford Countians.*

### ***Edgewood/Joppa Harford County Enterprise Zone***

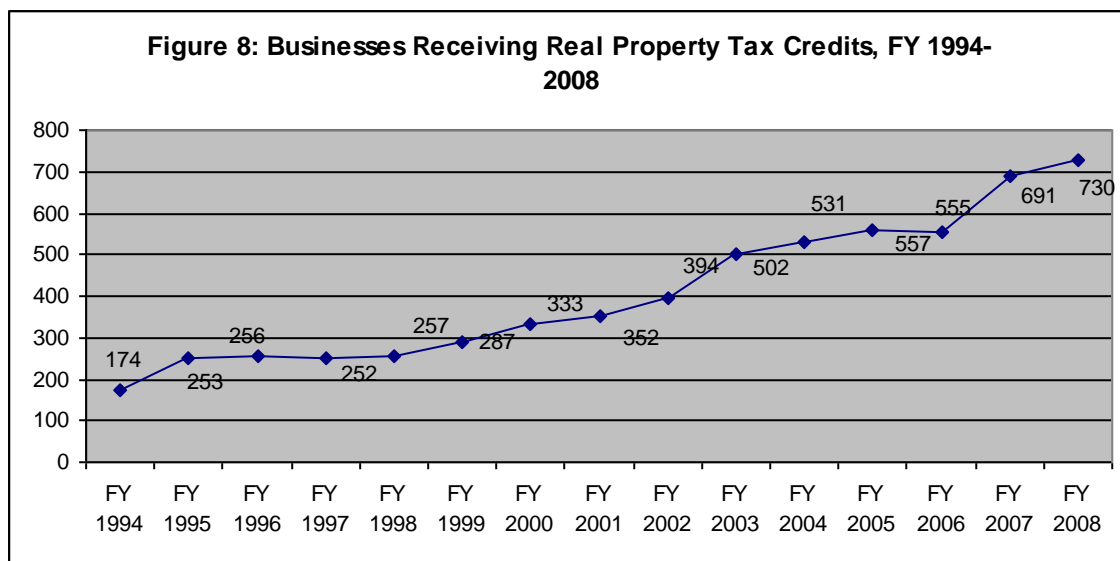
*By the end of 2005 Silver Spring had reemerged as an active center for new investment and new employment as the enterprise zone incentive has worked in tandem with the Redevelopment Project and other incentives. Property values had been declining in the Central Business District during the 1990s before the Enterprise Zone was designated – even while property values rose in other areas. In recent years, that trend reversed and Silver Spring property values have risen rapidly in combination with the economy and regional trends. The important measure came in 2004 as the redevelopment of downtown Silver Spring became a dynamic reality. The change continued in 2005 in the increasing values of commercial and residential property in surrounding Silver Spring being recognized by tax assessment increases. Declining property tax revenue in the years leading to the designation of the enterprise zone actually continued to decline for several more years before leveling out, and now have begun to increase rapidly as a result of increased property values and new construction.*

### ***Silver Spring-Montgomery County Enterprise Zone***

### *Growth In Enterprise Zone Activity*

The Enterprise Zone Program has been in existence for almost twenty-five years and since FY 1985 has grown from two businesses in two zones receiving property tax credits to 730 businesses in FY 2008. Qualified businesses in an enterprise zone receive property tax credits for a 10-year period. Therefore, a business receiving a real property tax credit in 1995, if it remained in operation, was still receiving some credit in 2005. The number of businesses investing began to grow beginning in FY 1999 reflecting both a stronger economy and more opportunities for investment as the number of zones also grew during this time. In addition, in recent years, the trend has been for jurisdictions to apply to expand their existing zones. Bigger zones also mean more opportunities for businesses to apply for the credits.

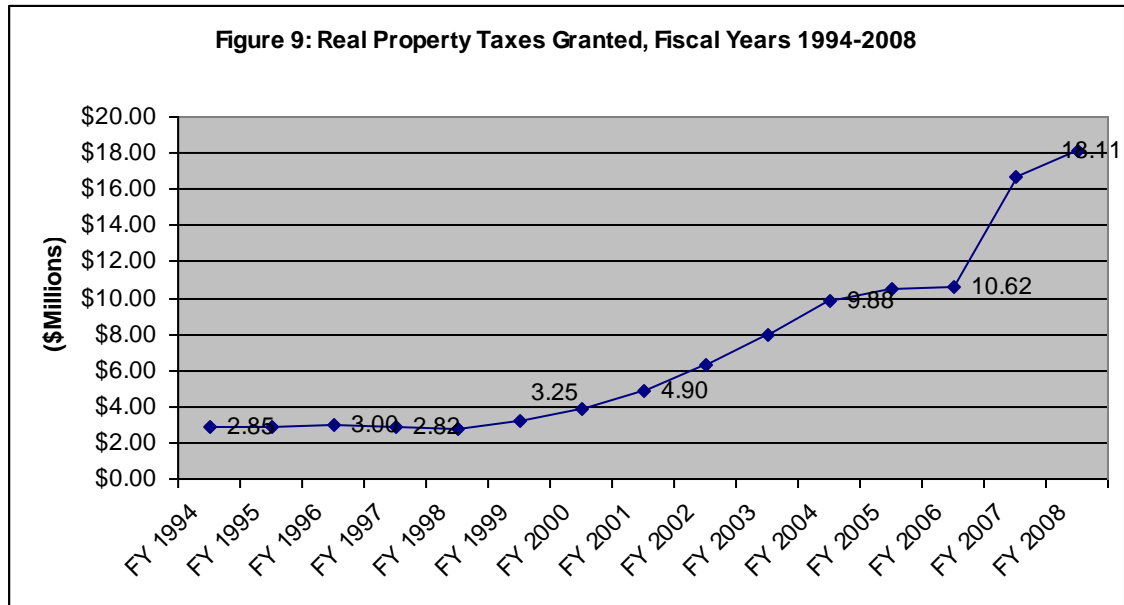
The number of businesses receiving real property tax credits has generally increased from year-to-year. Figure 8 illustrates the number of businesses receiving real property tax credits on an annual basis over the last fifteen years. The amount of real property investment for which businesses receive credits has increased from \$3.3 million<sup>1</sup> to almost \$1.8 billion.



Source: SDAT and DBED

As investment has grown, so has the amount of property tax credits granted to businesses in the zones. Real property taxes abated have grown from approximately \$58,000 in the first year to over \$18 million. The amount of property tax credits granted shows a similar trend over the time period analyzed. From FY 1994 to FY 2008, the amount of property tax credits granted increased from \$2.9 million to \$18.1 million (Figure 9).

<sup>1</sup> Prior to FY 2003, properties were assessed at 40% of their full market value. Beginning in FY 2003, this changed to 100%. For the purposes of this report, the real property investment data prior to FY 2003 has been adjusted to reflect 100 percent assessment so that the data for all years could be compared.



Source: SDAT and DBED

In general, the real property tax credit data provides information on the amount of credits granted and the usage of the credits. The number of businesses participating and the amount of eligible investment has generally grown over the life of the program, but especially in the last several years and significantly since FY 2006. Comparing the reimbursements earned on a regional basis by population and personal income shows that while the enterprise zones are located all over the State, including the suburban counties around Baltimore and Washington, the Western and Eastern portions of the State as well as Baltimore City receive a greater portion of the reimbursement relative to their population and personal income, therefore targeting the investment in areas of high unemployment, high poverty and low income.